US Cooper says not clear economy has bottomed out, but recovery seen – UPDATE

(Updating with further quotes and Cooper remarks on inventory, trade)
WASHINGTON (AFX) - Commerce Department UnderSecretary for Economic Affairs Kathleen Cooper said it is not yet clear that the US economy has bottomed out, but that the economy is likely to be "growing again" by the middle of 2002.

Talking to reporters in her office at the Commerce Department, Cooper said: "We can see that there are some signs that bottoming may be very near, may be here, but it's very difficult to say that that's the case, and I think we need to be much more cautious."

She said a significant part of the economic downturn has been due to weakness in investment spending, and that spending needs to start rising in order to re-stimulate the economy.

"We're all banking on investment spending turning around to get the economy growing, but that is not typical of recovery periods and certainly it's not typical when corporate profits are as weak as they are today," she said.

"And so for that reason, I think we need to be very cautious about the first half of the year, and (calling) exactly when the turning point comes," Cooper said.

The UnderSecretary added that growth in the US and global economies continues to remain sluggish.

Cooper also said that the recovery, when it comes, is not likely to benefit from the "same bounce" that pent-up auto and housing demand has provided in previous recessions because both those sectors have remained relatively strong through the current downturn.

"That's the reason I think it's important for us to be prepared for more limited growth as we move through the year," Cooper explained, adding that this makes it all the more important that Congress passes an economic stimulus package.

Asked about last week's remarks by Federal Reserve Chairman Alan Greenspan ahead of the Jan 30 interest rate policy meeting of the Federal Open Market Committee, Cooper replied: "He wanted to be cautious from the point of view of yes we're seeing some good signals out there for manufacturing, but we've all been fooled before."

"He and the Federal Reserve...since they're such an important influence on the overall US economy...want to make sure that they're careful in whatever policy they put into place," she said.

Many private sector economists interpreted Greenspan's remarks as dovish, and as a signal that Fed's rate cutting regime has not yet come to an end.

The UnderSecretary declined to be drawn to a discussion on whether the FOMC is likely to cut rates on Jan 30. Forecasters expect the FOMC to trim its key fed funds rate by 25 basis points to 1.50 pct.

Referring back to this week's news that manufacturing output fell 0.1 pct in December -- marking the fifth straight monthly decline -- Cooper said that the drop in output shows that inventories are getting in line.

“Inventories have softened enormously...we know that those inventories have to be getting so very lean that it's going to make it possible for production to turn around," Cooper said.

"The manufacturing part of the economy simply does not have to continue to pull them (inventories) down to the same degree that they have, and that is an encouraging sign to me," she noted.

The manufacturing sector accounts for roughly a sixth of the economy.

Cooper was speaking after the department released the latest trade figures for November which showed that the US trade deficit for goods and services narrowed by more than expected to a seasonally-adjusted 27.9 bln usd in November from a revised 29.3 bln in October.

The fall in imports in November was led by a sharp decline in imports of crude oil, which fell 19.8 pct to 4.88 bln usd.

"If the US experienced very strong economic growth and Europe did not, and Japan did not, then once that began our trade deficit would widen. That's what a lot of people are expecting to occur when you look at the macro forecasts out there," Cooper added.

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